Report

SFDR Review: Level 1 Text Published

Revised Level 1 text proposes a streamlined framework with key sustainability-related product categories better defined

Author:
Lewis Davison, VP of Product, Documents & Templates Production

Special edition 27: November 2025

Expect It.
confluence.com

Introduction

The European Commission has taken a major step forward in its sustainable finance agenda with the publication of the revised **SFDR Level 1 text**—a reset that could reshape how asset managers classify and communicate ESG strategies. While SFDR has been applicable since 2021, persistent challenges around data, product categorization, disclosure consistency and interpretational uncertainty have triggered a structural rethink.

The proposed changes suggest a move toward clearer product categories, reduced disclosure complexity, and a more proportionate framework that aligns with the EU's wider focus on regulatory simplification. Rather than incremental amendment, the Level 1 review reflects a broader effort to improve transparency, curb greenwashing, and address unintended consequences such as quasi-labelling under Article 8 and 9 funds.

This Special Edition of the RegTech Report breaks down what has been published, what will likely change next, and what financial market participants may need to consider during the transition period into 2028. Below, Lewis Davison analyses the revised text, highlights practical implications for the industry, and outlines how Confluence can support firms as the framework continues to evolve.

Preparing for SFDR 2028: What Asset Managers Need to Know

SFDR review – Level 1 text published

On 20 November 2025, the European Commission published its revised Level 1 text for the Sustainable Finance Disclosure Regulation (SFDR) framework. This text serves as an overhaul to the original framework, adopted in 2019 and applicable since March 2021 as part of the EU's Action Plan on financing sustainable growth.

While the original framework marked a step forward in advancing the sustainable investing agenda via a targeted disclosure framework, several shortcomings have emerged since the framework became applicable. Notably, various aspects of the rules (including disclosures) are considered complex and ineffective, with misalignment and confusion on certain concepts and definitions. This is in addition to the well documented use of Article 8 and 9 concepts as quasi-labels, an unintended consequence of the framework.

The Commission's review of the framework seeks to make it more efficient, straightforward and proportionate, while respecting stated objectives to increase transparency, combat greenwashing and protect investors. The review approach plays into the Commission's simplification initiatives as set out in its 2025 Commission Work Programme – broadly speaking, this entails targeting a 25% reduction in administrative burden, among other objectives and initiatives.

What is changing?

In keeping with the theme of simplification, the proposed text offers some genuine simplification and clarification that will be broadly welcomed by those Financial Market Participants (FMPs) subject to the requirements. It also leaves relatively little left to be determined at the Delegated Act level through implementing and technical standards.

In summary, the proposed text:

1. Removes all entity-level reporting, eliminating duplicative requirements vs. what is handled via the Corporate Sustainability Reporting Directive (CSRD) framework. The Commission estimates this alone will save 25% of costs for FMPs, amounting to 56m EUR annually.
2. Removes financial advisers and portfolio management from the scope.
3. Simplifies product-level disclosures (website, pre-contractual and periodic, collectively). Website disclosures will only be required to point to the corresponding pre-contractual and periodic disclosures, which will be limited to 2-pages max (with an additional one page for impact funds' pre-contractual disclosures). Technical standards will be drafted to define updated disclosure templates for this purpose.
   Taxonomy-related disclosures will only apply to Article 7 and 9 products (see below) with an environmental objective, whereas Article 8 products will only disclose on taxonomy alignment if this forms part of the ESG Basics strategy. Article 7 and 9 products must identify and disclose PAI indicators, however there will be flexibility here to select indicators and utilize more qualitative descriptions.
4. Addresses the 'quasi-label' issue, three core categories of funds are introduced and better defined, however they are not specifically defined as 'labels' and there is no formal approval process akin to the UK's Sustainability Disclosure Requirements (SDR) labelling regime. The framework also concurrently removes the definition of 'sustainable investment', given the varying interpretations of this, and instead embeds more specific rules and thresholds within each category, which are:
   - **Article 7 - 'Transition'** – products with ≥70% of their investments meeting a clear and measurable transition objective relating to sustainability factors. To note – this threshold can also be satisfied where at least 15% of investments are taxonomy-aligned. Certain exclusions must be adhered to, including any investments financing new projects for the exploration of fossil fuels. Products replicating an EU climate transition or Paris-aligned benchmark also qualify.
   - **Article 8 - 'ESG Basics'** – products must invest ≥70% in investments integrating sustainability factors, to be able to claim that they do indeed integrate such factors. This category introduces some exclusions; however, it does not preclude investment in fossil fuels.
   - **Article 9 – 'Sustainable'** – again, the 70% threshold is used here which requires that investments meet a clear and measurable objective related to sustainability factors. Excluded investments include all categories of investments under the Paris-aligned benchmark exclusions (Article 12(1) of **Delegated Regulation (EU) 2020/1818** – this includes fossil fuels (existing and new explorations)).
   - The proposal also introduces an additional category – **Article 9a** – for products claiming to combine underlying products that are themselves categorized across Articles 7-9. Again, the 70% threshold must be respected i.e., underlying investments must reflect at least 70% alignment across Article 7, 8 or 9. Practically, this will represent a data collection exercise for products such as fund-of-funds and multi-option insurance products (MOPs) to ensure sufficient tracking of alignment to the threshold.

   Uncategorized products can, in effect, say little on how they consider sustainability factors on a voluntary basis, with recalibration of marketing and naming rules. Any reference in the product's name, PRIIPs KID and marketing materials is prohibited, and references must be limited to less than 10% of the volume of any pre-contractual disclosures.

5. Formalizes the approach surrounding the use of data and estimates, in recognition of the limitations on data experienced by FMPs since the introduction of SFDR. FMPs must have formalized and documented arrangements for the use of third-party data, and documented methodologies underpinning estimates.
   Additionally, FMPs must provide clients, upon request, information on data providers and (where available) their methodologies, and/or the methodologies, assumptions and precautionary principles surrounding estimations. FMPs should therefore consider how they document such information to support any such requests.
6. Requires that, in line with the development of the European Single Access Point (ESAP) as a centralized EU regulatory data repository, FMPs deliver information related to web disclosures (which themselves point to pre-contractual and periodic disclosures) to the relevant collection body for publication in the ESAP. While there is nothing additional per se here, it will represent an additional dissemination requirement. This will apply 18 months after the application of the revised SFDR framework (see below).
7. Introduces minor amendments to the PRIIPs framework, to include duplicative disclosure of the product's categorization and a description of ESG objectives. This was already foreseen in the PRIIPs modernization proposal, which itself is yet to be finalized with respect to detailed changes to the current disclosure rules and templates.

When will this apply?

Generally, an 18-month transition period applies between entry into force and application. Considering the legislative cycle hereafter with the Parliament and Council, it is estimated that the revised SFDR framework will apply at some point in 2028.

The full framework will apply to UCITS and AIFs from the application date, whereas other FMPs/product types (such as insurance and pensions) will have an additional 12-month transition period for core requirements under Articles 7-11.

How Confluence® can help

Today, Confluence supports a range of clients with SFDR disclosure production across the asset management, asset servicing and insurance segments. As a key and strategic offering in our wider disclosure production managed service, we will be actively monitoring the evolution of the SFDR framework, particularly as it relates to forthcoming revisions to the technical standards surrounding pre-contractual and periodic disclosure templates. Ultimately, having this additional detail will be key to fully assessing the proposed changes and enabling us to continue developing our solution to support clients through this transition.

Equally, we anticipate corresponding changes to follow in the industry data-exchange framework – the 'European ESG Template' (EET) – another area we will be monitoring and updating accordingly.

We will continue to monitor for the more detailed changes to follow and keep you informed here. In the meantime, if you have any questions and would like to discuss further, we'd be happy to hear from you – please contact your Confluence representative.

Disclaimer

The content provided by Confluence Technologies, Inc. is for general informational purposes only and does not constitute legal, regulatory, financial, investment, or other professional advice. It should not be relied upon as a substitute for specific advice tailored to particular circumstances. Recipients should seek guidance from appropriately qualified professionals before making any decisions based on this content.

About Confluence®

Confluence is a leading global technology solutions provider committed to helping the investment management industry solve complex data challenges across the front, middle, and back offices. From data-driven portfolio analytics to compliance and regulatory solutions, including investment insights and research, Confluence invests in the latest technology to meet the evolving needs of asset managers, asset owners, asset servicers, and asset allocators to provide best-of-breed solutions that deliver maximum scalability, speed, and flexibility, while reducing risk and increasing efficiency. Headquartered in Pittsburgh, PA, with ~700 employees in 15 offices across the United Kingdom, Europe, North America, South Africa, and Australia, Confluence services over 1000 clients in more than 40 countries. For more information, visit confluence.com